



Memorandum # 43/2006

Commonwealth of Massachusetts | Public Employee Retirement Administration Commission
Five Middlesex Avenue, Third Floor, Somerville, MA 02145
Ph 617 666 4446 | Fax 617 628 4002 | TTY 617 591 8917 | www.mass.gov/perac
Domenic J. F. Russo, *Chairman* | A. Joseph DeNucci, *Vice Chairman*
Kenneth J. Donnelly | James M. Machado | Donald R. Marquis | Thomas Trimarco
Joseph E. Connarton, *Executive Director*

MEMORANDUM

To: All Retirement Systems

From: Joseph E. Connarton, Executive Director

Subject: Revised Hedge Fund Investment Guidelines

Date: October 26, 2006

At its meeting of September 25, 2006, the PERAC Commission voted to increase the permitted asset allocation to hedge funds / absolute return strategies from the existing 5% to 7.5%. PERAC's revised hedge fund guidelines are attached.

Retirement systems with total portfolio assets of at least \$250 million may continue to request authorization to conduct competitive search processes to hire their own managers. Systems below that level may continue to invest in the PRIT Absolute Return strategy without PERAC regulatory action.

In addition to the higher permitted allocation levels, the revised guidelines make it even more explicit that systems investing on their own should restrict their hedge fund investments to funds of funds. Because diversification is so important in this sector, the guidelines also offer guidance on expected diversification among funds of funds and on how many separate hedge funds should be owned within the total hedge fund allocation. There is further discussion on the types of strategies that systems should look for in their hedge fund products and the statistical performance statistics that should be considered. The guidelines also dwell on some of the various areas of concern that should be included in the due diligence process.

If there are any questions on any aspect of these guidelines, please contact either myself or the Investment Unit.